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SUBJECT: GOI CONCERNED MECHANISM TO PROVIDE AID TO
PALESTINIANS TO BE USED TO PAY SALARIES

Classified By: Ambassador Richard H. Jones, reasons 1.4 (b) and (d).

11. (C) Summary: During a May 12 meeting with the Ambassador, MFA Deputy Director General for Economic Affairs Yossi Gal and Deputy Director General for Europe Ron Curiel expressed concern about the EU offer to develop a mechanism to deliver assistance to the Palestinians, fearing it might be used to pay salaries of PA officials. The Ambassador said that the U.S. opposes using the mechanism to pay salaries and intends to actively work to shape the mechanism. Gal viewed the decision by the private petroleum company Dor to discontinue supplying Palestinian gasoline stations as a commercial dispute over nonpayment rather than a humanitarian crisis. Gal said that Livni's proposal to release collected tax revenues to purchase medical assistance for the Palestinians has not yet been finalized by the government. The Ambassador suggested that the GOI make progress on legislation to criminalize labor trafficking prior to PM Olmert's trip to Washington. Gal said that the GOI is interested in continuing the Middle East Regional Cooperation Program (MERC) and the Middle East Cancer Consortium (MECC), but with private Palestinian partners only as long as Hamas is in control of the PA. Gal said the Israeli Embassy in Washington could raise with U.S. officials GOI interest in getting USAID to review its decision to terminate the Cooperative Development Research Program (CDR). End summary.

CONCERN ABOUT MECHANISM, NO TO SALARIES

12. (C) On May 12, the Ambassador met with MFA Deputy Director General for Economic Affairs Yossi Gal and Deputy Director General for European Affairs Ron Curiel to discuss the statement issued by the Quartet at its May 9 meeting and Israel's approach toward assistance to the Palestinians. Curiel said that the GOI does not want humanitarian relief to lead to a lessening of political pressure on Hamas. If Hamas does not comply with the Quartet conditions, Gal said, the onus should be on Hamas and not Israel. Gal, who had just finished a meeting with EU Middle East envoy Marc Otte, said that whatever mechanism the EU devises to provide assistance to the Palestinians, it is most important that Hamas not claim credit. The mechanism should not be seen as giving legitimacy to Hamas. He said one of the problems that the GOI has with the payment of salaries is that it helps to legitimize Hamas because of the necessity to have contact with various PA ministries, such as the Ministry of Finance. Gal said FM Livni has said that Israel will work with the mechanism, but will draw the line at payment of salaries. The Ambassador said the U.S. firmly opposes payment of salaries and will actively work to shape the mechanism.

DOR GAS CUTOFF

13. (C) The Ambassador raised the issue of the gasoline supply by the Israeli company Dor due to non-payment by Palestinians. Gal stressed that Dor is a private company that sells to a PA monopoly, which in turn sells to private gasoline stations in Gaza and the West Bank. The GOI could not and would not assume the responsibility for funding private companies dealing with Palestinians. He also wondered what has happened to the money consumers are paying for fuel. He said the fact that Dor has not received payment is the source of the problem. If Dor refuses to continue supplying fuel until it gets paid, it is a commercial dispute and not a humanitarian crisis. (Note: In a meeting with the Ambassador on May 14, FM Livni appeared willing to consider the possibility of using tax revenues to support a humanitarian fuel reserve) to supply fuel to hospitals, ambulances, trucks in the transport of humanitarian goods, etc. - administered by UNRWA or a reputable NGO. End note.)

RELEASE OF TAX REVENUES TO PURCHASE MEDICAL GOODS

14. (C) The Ambassador said that the best way to keep world pressure on the Hamas government is to ensure that the &story8 is not the suffering of the Palestinians and pointed to press reports of children dying, because they could not get dialysis. Gal said that Livni's proposal to

use PA tax revenue now held in escrow to purchase medical assistance for the Palestinians has not yet been finalized by the government. Gal said the proposal shows the GOI's willingness to help with the health humanitarian crisis. He said that the GOI could take one of three approaches: purchase medicine in Israel and transfer it to hospitals; give money directly to WHO and work through that organization; or, try to work through NGOs. Gal said more Palestinians had sought care in Israeli hospitals in the last three months and that FM Livni had asked about the ownership or control of Palestinian hospitals (three are Hamas-run but the rest are not). The Ambassador suggested the GOI also work with East Jerusalem hospitals; it would be easier for the GOI to control their contacts.

15. (C) Curiel said that the GOI must first resolve a legal problem before proceeding with the release of tax collections in any case. He said that using PA tax revenues to pay for electricity is permitted through an agreement previously signed between the PA and the GOI. No such agreement exists for the purchase of medical assistance. The Ambassador offered that if Israel saw fit to deal with Mahmud Abbas on such issues, it would make things easier. Gal said he does not believe the GOI will reach an agreement regarding working with Abbas before PM Olmert's May 23 visit to Washington. The Ambassador said that reaching a decision before the trip would be useful and there would be intense interest in Washington on the GOI position. He added the longer it took to reach a decision, the harder it would be to keep all parties, especially the EU, on the same page regarding contact with the Palestinians.

PERMITS FOR PALESTINIAN WORKERS

16. (C) Curiel said the GOI has no interest in weakening the Palestinians, economic and social situation. Noting that MOD Peretz has announced that he would approve 8,000 permits for West Bank workers to enter Israel, the Ambassador asked whether permits would be issued to Gazan workers as well; the economic condition in Gaza is weaker than in the West Bank. (Note: A COGAT official told econoff May 12 that Peretz had yet to issue the announced West Bank permits and would not do so until after the Jewish holiday on May 16. The official believed that Peretz did not need Cabinet approval for this decision. End note.) Gal opined that the present government, especially Peretz, will not be as tough on such issues as the Sharon government. Nevertheless, he was not sure that the Israeli public is receptive to the idea of more Palestinian workers. The Ambassador said that if permits are not issued to workers, it becomes a trafficking and a security issue, because those seeking jobs will find ways to enter Israel, and terrorists would exploit the same avenues. He stressed that if those legitimately seeking work were vetted and issued permits, then law enforcement and security services can focus on those without permits, who are in the country for other reasons.

TRAFFICKING IN PERSONS

17. (C) The Ambassador mentioned a recent article in the New York Times that said that the fight against trafficking in persons (TIP) is a high priority for the Bush Administration. The Ambassador noted that PM Olmert had made statements on fighting TIP during the recent Knesset election campaign. He said it would be helpful to have progress on pending legislation to criminalize labor trafficking, such as having the pending bill pass its second reading, prior to the trip to Washington. He said that there are criminal penalties for sex trafficking, but only fines for labor trafficking, which many employers consider part of the cost of doing business. The Ambassador asserted that if there were criminal penalties for labor trafficking, then its incidence would decrease markedly.

MERC/MECC

18. (C) The Ambassador informed Gal the U.S. has decided to continue supporting the Middle East Regional Cooperation program (MERC) and Middle East Cancer Consortium (MECC), but only with vetted independent Palestinians interested in working with Israeli counterparts. Gal said that the GOI is also interested in continuing these programs, which also involve Jordan and other countries. The GOI's only condition, Gal said, is that there be no contact with the PA and that no PA officials are involved.

COOPERATIVE DEVELOPMENT RESEARCH PROGRAM

19. (C) The Ambassador and Gal discussed the Cooperative Development Research (CDR) Program, which USAID Washington has decided to terminate. Gal said that the program paired U.S. money with Israeli expertise for various projects in developing countries. Israel would like USAID Washington to review its decision and continue the CDR program, which has provided important support for Israel's efforts to build relations in the developing world, Gal said. Currently, Gal said, Israel is looking for alternative partners, such as the World Bank or the EU, who have resources for working in Third World countries. The Ambassador suggested that the GOI might want its Embassy in Washington to discuss the issue with U.S. officials. Gal said that the Israeli Embassy could easily do that.

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JONES